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March 25, 2009

To: The Honorable Bill Lockyer, California State Treasurer
and Michael C. Genest, California Department of Finance

From: Jovan Agee, Political and Legislative Director

RE: Comments on the Federal Stimulus and its affect on the $10 billion budget trigger

Estimates vary dramatically as to the amount of federal funds which will flow from the American Recovery and Reinvestment Act (ARRA) to California, and perhaps more importantly, the amount of these new funds which can be used to offset general fund expenditures. If the Treasurer and Director of Finance do not certify that at least $10 billion in funding can be used to offset general fund expenditures, dramatic cuts in various crucial state programs will take effect.

The relevant state statute is not at all clear. Reflecting this ambiguity, estimates by the Department of Finance (DOF) and the Legislative Analyst's Office (LAO) differ in their totals, and in their treatment of certain funding streams. For instance, DOF counts the cost of an eligibility change – which California must make to qualify for federal FMAP funds – against the total, i.e., it does not count that toward the $10 billion. LAO, by contrast, says this amount can count toward the $10 billion. This is just one example of numerous differences between figures.

The two agencies also disagree on the treatment of $510 million which the governor line-item vetoed, essentially in anticipation of federal funding, with the DOF apparently not including that amount toward the $10 billion, and the LAO including it. The broader point here is that if these two agencies of state government cannot agree on how different funding streams are treated, it is difficult for an outside party to come up with any unique or specific "recipe" to reach $10 billion.

The LAO estimates that about $8 billion of ARRA funding will be available in the relevant time period (through June 30, 2010). However, it points out that "it is possible that state revenues (and the Proposition 98 minimum funding level) may continue to fall. In that case, it may be possible to use additional federal education dollars for [general fund] budgetary relief."[1] In much the same way, if the economy continues to worsen, Medicaid spending and enrollment should rise. In a sense, the worse things get, the more opportunities there are to draw on ARRA.

The LAO adds that the language in the trigger legislation is very much open to interpretation. The language, says the LAO, "raises such questions as whether $10 billion must actually be used to offset state General Fund costs, or whether this requirement would be satisfied if funds of this amount were identified…." Yet another moving target is the amount the state may gain through grants and subsidized bonds.[2] The problem with any kind of analysis of the trigger effect is that there are literally dozens if not hundreds of contingencies and ambiguities in California's budget.

In general, it seems reasonable to believe that roughly $8 billion in FMAP funds can offset general funds. An additional $1.1 billion in flexible stabilization funds is available. Clearly, these sums alone get the state "in the ballpark" of the $10 billion. If the state exerts itself to identify all the revenue opportunities available to it in the federal stimulus package, there is no reason it cannot reach the $10 billion level. On the other hand, if the state goes out of its way to disallow costs (such as in the examples above where the LAO and the DOF disagree), it will be beneath the threshold.

[1] http://www.lao.ca.gov/2009/bud/fed_stimulus/fed_stimulus_031009.pdf, p. 3.
[2] Ibid, pp. 7-9.